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## RECIPROCITY AND ITS RELATION TO FOREIGN TRADE

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In a country producing vastly more than its own requirements, every dictate of prudence prompts such procedure as will assure the freest and the broadest market for its surplus. Reciprocity, the most equitable and the most logical step in that direction, is opposed in the United States by the extreme protectionist, who fears in it the thin edge of a wedge which will split the sacred tariff. The "stand-patter," claiming as of his contrivance the phenomenal prosperity which the country enjoys, is oblivious to the growing sentiment for tariff reform, and even the clarion note from rock-ribbed Massachusetts, the nursery of statesmen in the past, falls on deaf ears.

We are about completing an era of ten years of prosperity and development for which the past affords no parallel. Abundant harvests, leaving great surpluses coincident with scarcity abroad and a demand at extreme prices, have sent the favorable balance of trade to enormous figures, and induced a home development which overtaxes domestic financial facilities. With characteristic enterprise, the mills and factories have kept pace with and in some instances outstripped the increased demand, so that the industrial system of the country is a ponderous one and dependent upon either a continuance of the home demand or a greatly increased foreign outlet.

The policy of extreme protection has hitherto escaped the natural penalty of reprisal, which, however, is now seriously threatened. Farm products have been the most immune from this menace, as well as from the effect of competition, because their market in the populated countries of Europe is hardby and necessitous, while competing supplies are drawn from a much greater distance. Discrimination against us, however, will neutralize whatever advantage we now enjoy, and undoubtedly array our farmers under the banner of reciprocity.

In the meantime, and quite apart from considerations affecting the agricultural output, what are the prospects of a market for the

product of our vast industrial system? Can we reasonably expect a continuance of the present home demand, upon faith in which expansion has been based? Will the railroads extend and rebuild indefinitely? Will the reconstruction of our great cities progress without interruption? These are the developments of prosperity, and prosperity is not a perennial plant. If the past teaches any lesson, it is that periods of depression follow periods of intense activity, and are usually relative in extent and duration.

Deprived, even measurably, of his home market, the manufacturer cannot find an outlet in the countries near at hand, which themselves depend upon their manufacturing industries. He must look to new, undeveloped and distant markets, where he will find competition strongly entrenched. Happily, there is nothing visible in the agricultural situation—the most potent factor in prosperity—to cause fear of depression from that source (subject, of course, to the many uncertainties before harvest time), yet a note of warning has nevertheless been sounded simultaneously by several prominent financiers that the onward movement has come to a pause. Pause in industry means reaction. There is no such thing as standing still, and it is precisely upon this theory that our “captains of industry” have forced the pace.

The manufacturers as a class believe that the foreign markets to which they will look for relief are to be captured by a *coup de main* when required. Experience should have taught them that spasmodic effort of that kind is not broadly successful. Each of those markets has its peculiar practices or requirements, which are constantly studied and catered to by the European manufacturer, whereas our mills and factories are too often interested only when home demand languishes. The industrial depression and congestion which followed the panic of 1893 is of too recent date to be forgotten, and the desperate and expensive efforts made at that time to divert trade from established channels should serve as a warning. It is, moreover, a far more serious matter to procure the business that will keep the actual industrial system employed than it was to procure the business necessary for a like purpose fourteen years ago.

The natural tendency of the buyers in foreign countries is to purchase their requirements in the same market where the product of their own country finds a sale. This sentimental preference is sustained by substantial reasons: Freight rates are lower when

homeward employment is offered to the outward carrier, and the proceeds of products sold abroad incur a banking commission if transferred elsewhere. The latter tax, though small, is onerous when applied to the close terms attaching to large transactions, and it is an important item in the aggregate. It attaches not only to exports, but to imports as well, because, since England has been the most advanced country in encouraging reciprocal trade, London is the clearing house of international commerce, and the pound sterling is the standard of value.

The "stand-patter" warns us to let prosperity alone; that conditions are eminently satisfactory; that foreign countries are taking from us an ever-increasing proportion of our product, and that even if adverse conditions overtake us reciprocity is not an effective remedy. He fails, however, to state his authority for trading on a continuance of existing conditions. He overlooks the menace of action by Germany, long deferred through courtesy, and he ignores the probability that other countries will follow her lead. The possibility of discrimination against our manufactured products in consuming countries has not been considered in this article. Such action would greatly add to our difficulties. There has been no action or threatened action in that direction, but we may be sure that the republics of South America, while fully reciprocating our friendly expressions, are keenly alive to the difference between precept and practice. Reciprocity, to be sure, is not the sovereign or even an immediate remedy for the ills we have considered. It is the first step only, and by encouraging closer relations will lead to the removal of many impediments. If reciprocity had been applied at some time in the past, it would already have attained important development. The sooner it is applied the sooner it will yield results.

Since the necessity of cultivating foreign trade is, after all, the motive which will influence any action taken on reciprocity, we may as well briefly consider the further co-operation which is necessary to complete success: European bankers make the requirements of legitimate business their first care and measurably protect them from the intolerable high rates to which money is driven by speculation. The inroad which Germany has made in supplying foreign markets is in great measure due to the enlightened banking facilities which it extends to manufacturers and which the manufac-

turers in turn pass on to the foreign client through the export merchant. Similar conditions to a certain extent prevail in England and France, whereas our manufacturer in his relation to the export trade exchanges his shipping receipt for a check, so that the terms offered by the American export merchant contrast unfavorably, and the preference is strongly against him. Promising enterprises in the South American republics seeking capital have gone begging to Europe because they could not be handled here. Indeed, the equipment of the American merchant is not complete without a European connection, and when business depends upon the greater facilities obtainable there, either it is entirely lost to us or we lose an important share of the benefit accruing. If the "pause" or reaction, of which our financiers warn us, is applicable to "Wall Street" prosperity, it will not be altogether a national calamity. The financial resources of this country, pledged in the first instance to the giant combinations of capital, are inevitably involved in the attendant speculation. No others need apply. But if we are approaching a period of business stagnation which, like its predecessors of 1837, '57, '73 and '93, shall affect the general industries of our country, the situation is more serious. If the latter is the case, it behooves our legislators to see to it that our foreign trade relations be improved to enable us to relieve the oversupplied home market by sales in communities not affected by the financial stringency. The means for promoting our foreign commerce are at hand. It only rests with Congress to apply them.

N. B.—The writer of the foregoing article asks us to say that while his remarks upon the indifference of the American manufacturer and the attitude of the American banker are general, there are, of course, notable exceptions to the rule.—EDITOR.